

CITY COUNCIL POLICY PRIORITY #27

Cannabis Manufacturing, Distribution, and Testing

Item 4.1

January 15, 2019

San José Cannabis Program Timeline

Nov. 2010
Voters approve
Measure U
(Marijuana
Business Tax)

June 2014
Council
approves
medical
marijuana
Zoning &
Regulatory
program

Dec. 2015
16 collectives
achieve
registration (of
65 applicants)

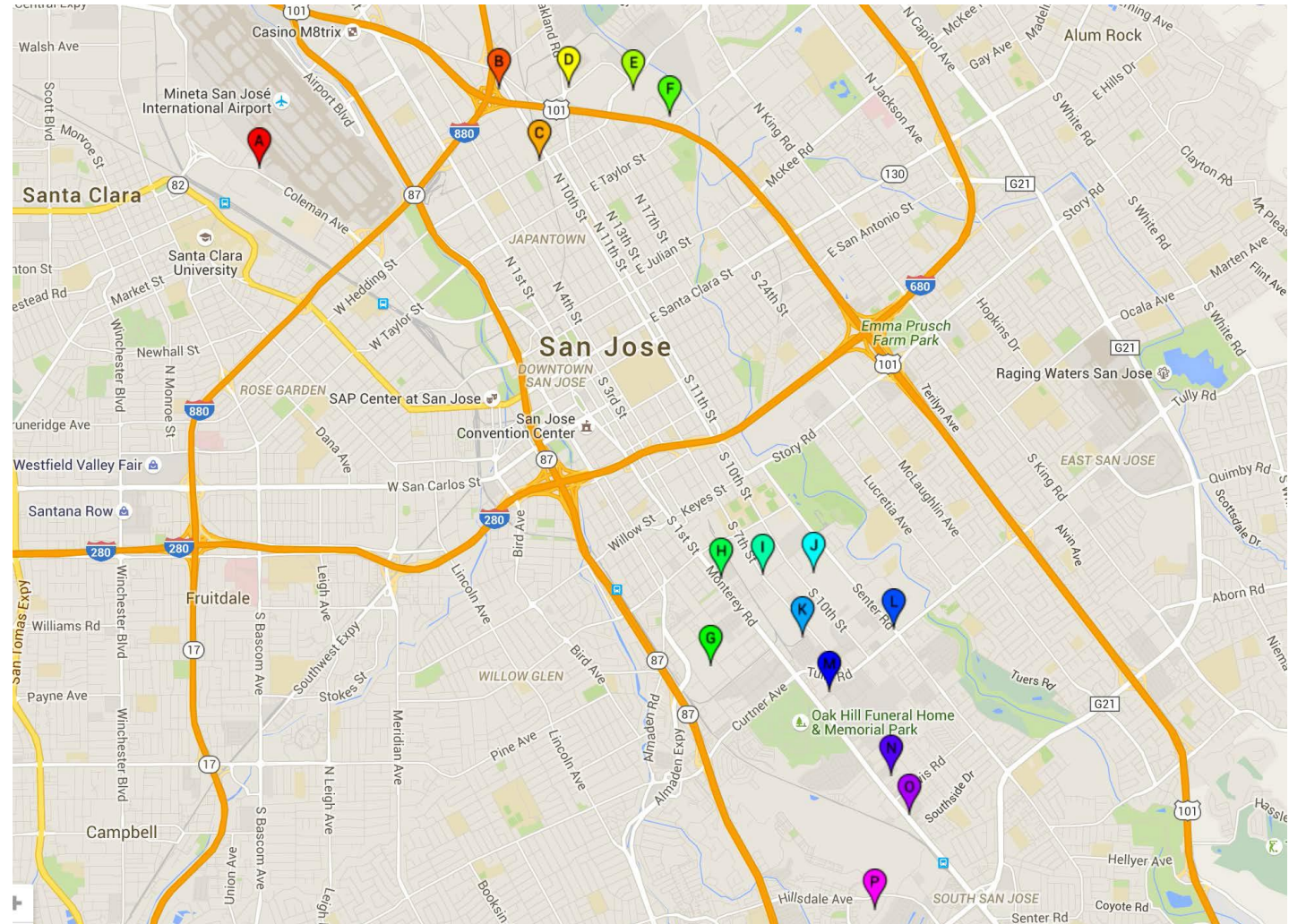
Nov. 2016
California
voters approve
Prop. 64,
legalizing
cannabis for
those over 21

Nov. 2017
Council
authorizes
Registered
Collectives to
sell non-
medical
cannabis

Current Program

16 Registered Dispensaries

- 1 retail location (open to public)
- Up to 2 cultivation/manufacturing sites (not public)
- Annual City Registration required
- Annual State License required



City Council Policy Priority #27

Explore adding the following categories of regulated cannabis businesses:

Manufacture



Distribution



Testing Labs



Manufacturing – Zoning

- Making cannabis products
- Packaging products for retail sale
- Extracting CBD or THC from the cannabis plant

Zoning Districts

- Light Industrial (LI)
- Heavy Industrial (HI)
- Combined Industrial/Commercial (CIC)
- Industrial Park (IP)
- Amended buffers (no public access)
- Allow in North SJ, International Business Park, & Edenvale



Manufacturing - Regulatory

- Making cannabis products
- Packaging products for retail sale
- Extracting CBD or THC from the cannabis plant

Regulation

- Not open to the public
- Security cameras 24/7
- Employees badged and fingerprinted
- Cannabis receipt protocols
- Good Neighbor requirements



Distribution - Zoning

- Transporting cannabis from:
 - Grower to manufacturer
 - Grower to dispensary
 - Manufacturer to dispensary
- Sending samples of cannabis or cannabis products to testing labs
- Collecting and paying State excise taxes

Zoning Districts

- Light Industrial (LI)
- Combined Industrial/Commercial (CIC)
- Industrial Park (IP)
- Amended buffers (no public access)
- Allow in North SJ, International Business Park, & Edenvale



Distribution - Regulatory

- Transporting cannabis from: grower to manufacturer or dispensary, manufacturer to dispensary
- Sending samples of cannabis or cannabis products to testing labs
- Collecting and paying State excise taxes

Regulation

- Not open to the public
- Security cameras 24/7
- Employees badged and fingerprinted
- Cannabis receipt protocols
- Good Neighbor requirements



Testing Labs - Zoning

- Test random samples of products for retail sale or manufacture

Zoning Districts

- Industrial Park (IP)
- Amended buffers (no public access)
- Allow in North SJ, International Business Park, & Edenvale



Testing Labs - Regulatory

- Test random samples of products for retail sale or manufacture

Regulation

- **Critical for public health & safety**
- Not open to the public
- Security cameras 24/7
- Employees badged and fingerprinted
- Cannabis receipt protocols
- Good Neighbor requirements



Marijuana Business Tax

Marijuana Business Tax Revenues

2016-2017	2017-2018	2018-2019
\$10.5 million	\$13.0 million	\$14.0 million*

*Forecast

Proposed MBT Rates

Jurisdiction	Cultivation	Manufacturing	Testing ¹	Distribution	Retail / Delivery
San José (Current)	10%	10%	10%	10%	10%
San José (Proposed)	4%	3%	0%	2%	10%

^[1] Although the proposed MBT rate for Testing is 0%, these businesses will remain subject to the General Business Tax imposed under Chapter 4.76.

Tax Rate Comparison – Santa Clara County

Jurisdiction	Cultivation	Manufacturing	Testing ¹	Distribution	Retail / Delivery
San José (Current)	10%	10%	10%	10%	10%
San José (Proposed)	4%	3%	0%	2%	10%
Neighboring Santa Clara County Cities					
Morgan Hill	Varies by Sq. Ft. (~3%)	4%	2%	4%	6%
Mountain View	9%	9%	9%	9%	9%
Santa Clara	5%	5%	3%	3%	5%
Campbell ²	7%	7%	7%	7%	7%

^[1] Although the proposed MBT rate for Testing is 0%, these businesses will remain subject to the General Business Tax imposed under Chapter 4.76.

^[2] Moratorium on cannabis sales in the city until April 1, 2019; rate proposed to be 7%.

Tax Rate Comparison – Northern California

Jurisdiction	Cultivation	Manufacturing	Testing ¹	Distribution	Retail / Delivery
San José (Current)	10%	10%	10%	10%	10%
San José (Proposed)	4%	3%	0%	2%	10%
Other Northern California Cities					
Berkeley: non-medical	5%	5%	5%	5%	5%
medical	2.5%	2.5%	2.5%	2.5%	2.5%
Oakland: non-medical	10%	10%	10%	10%	10%
medical	5%	5%	5%	5%	5%
Sacramento	4%	4%	4%	4%	4%
Santa Cruz	8%	8%	1%	2%	8%

**Note: San Francisco has a different rate structure. See staff memorandum.*

Councilmember Recommendations



Land Use

Second location for current 16 (Perez/Carrasco, 2b)

Dispensaries in Edenvale, North SJ, IBP, (Perez/Carrasco, 2d)

Private consumption events (Perez/Carrasco, 2g)

Study industrial lands, protections (Diep, 2)



Regulatory

Sale of individual licenses & businesses (Perez/Carrasco, 2c)

Change audit requirements (Perez/Carrasco, 2e)

Cannabis waste & disposal policy (Perez/Carrasco, 2f)

Cannabis equity applicant program (Perez/Carrasco, 2h)

Cap dispensaries in D7 (Esparza, 2c)



Other


Monitor retail tax rate (Perez/Carrasco, 2a)

Report to CED on manufacturing, distribution, testing permits (Diep, 1)

Evaluate current zoning, report to Council on retail cannabis oversaturation in D7 (Esparza, 2a-b)

Green-Yellow-Red Analysis

Land Use



Second location for current 16 (Perez/Carrasco, 2b)*

Dispensaries in Edenvale, North SJ, IBP, (Perez/Carrasco, 2d)

Private consumption events (Perez/Carrasco, 2g)

Study industrial lands, protections (Diep, 2)

Regulatory



Sale of individual licenses & businesses (Perez/Carrasco, 2c)


Change audit requirements (Perez/Carrasco, 2e)

Cannabis waste & disposal policy (Perez/Carrasco, 2f)

Cannabis equity applicant program (Perez/Carrasco, 2h)

Cap dispensaries in D7 (Esparza, 2c)

Other



Monitor retail tax rate (Perez/Carrasco, 2a)**

Report to CED on manufacturing, distribution, testing permits (Diep, 1)

Evaluate current zoning, report to Council on retail cannabis oversaturation in D7 (Esparza, 2a-b)

*Prior Council Direction

**On staff work plan

Staff Recommendation

- A) Adopt a resolution approving the CEQA clearance for cannabis, manufacture, distribution, and testing.
- B) Approve Zoning Ordinance for cannabis manufacture, distribution, and testing.
- C) Approve Regulatory Ordinance for cannabis manufacture, distribution, and testing.
- D) Provide policy direction on changes to the Marijuana Business Tax.
 - Staff to return with ordinance for City Council consideration.

Items A, B, and C complete Council Policy Priority #27